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ABSTRACT

In determining standards to judge an agency's performance in meeting its responsibilities to the public, two fundamental factors must be taken into consideration: (1) standards for financial accounting and service reporting must be formulated in the knowledge that variations among agencies will necessarily give rise to variations in applicability of the standards and (2) standards contemplating the discharge by community agencies of their responsibilities for management accountability and disclosure must be primarily relevant to the sole purpose for which such agencies exist: to serve people. The standards presented are organized around six key questions; Will they provide: (1) an adequate body of historical, quantitative facts; (2) adequate internal controls; (3) adequate administrative control and reasonably effective financial planning; (4) a sound basis for determining overall program costs; (5) the necessary service statistics and (6) will they enable the agency to meet its responsibilities for full and meaningful public disclosure of its finances and operations? (Other sections of this guide are available as LI 003342-003344 and LI 003346 through LI 003351). (Author/NH)

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SELF-STUDY AND EVALUATION GUIDE | 1968 Edition

Financial Accounting and Service Reporting

NATIONAL ACCREDITATION COUNCIL
For Agencies Serving the Blind and Visually Handicapped
84 Fifth Avenue
New York, N. Y. 10011

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LI 003 345

INSTRUCTIONS

Two steps should precede the use of this Section:

1. *Section A, Manual of Procedures,* should be read for an understanding of the overall framework and governing principles of the self-study and accreditation process.

2. *Section B, Agency and Community Profile,* should be reviewed, since it embraces the statement of the agency's philosophy of service and program objectives, an indispensable base for evaluation of its work.

* * * *

This Section is designed to convey an accurate description of the agency's performance in a particular subject area. Three elements are employed to achieve this: a coded *Standards Checklist,* coded *Evaluation Ratings,* and *Comments.* Each is explained below.

Coding the Standards Checklist. Each standard describes a provision, condition or characteristic found in an acceptable agency; checking off, through the appropriate notation, whether and to what extent agency practice conforms to the standard provides a factual base for the succeeding evaluation.

In the parentheses ( ) preceding the standard, insert a symbol according to the following code.

✓✓—The standard is fully met.

✓—The standard is partly met.

O—The standard, although needed and desirable, is not met, or is met to such a limited extent as to be virtually inoperative.

?—The applicability of the standard to the agency is questioned.

X—The standard is clearly inapplicable to the agency.

Coding the Evaluation Ratings. Each evaluation question poses a criterion for judgment. Careful discrimination should be exercised in arriving at such judgment, bearing in mind that standards are not aimed at perfection but are keyed to realistic, attainable levels of performance. While the ratings embrace such concepts as *excellent, well, satisfactory, poor,* etc., which cannot be specifically defined, a valid judgment can be formulated if the evaluator balances a) the requirements postulated by the standard, b) the agency's stated philosophy of service and program objectives and its community relationships, and c) the practical knowledge derived from the evaluator's own professional experience.

In the brackets [ ] preceding the evaluation question, insert the code letter that best describes the agency's performance:

E—Excellent. The agency meets the criterion to the *fullest* extent and functions *excellently* in regard to it.

VG—Very good. The agency meets the criterion to the *fullest* extent and functions *well* in regard to it; or it meets the criterion to a *satisfactory* extent (i.e., not full coverage) and functions *excellently* in regard to it.

G—Good. The agency meets the criterion to a *satisfactory* extent and functions well in regard to it.

F—Fair. The agency meets the criterion to a *satisfactory* extent (i.e., not full coverage) but functions *poorly* in regard to it; or it meets the criterion to a *limited* extent but functions *satisfactorily* in regard to it.

P—Poor. The agency meets the criterion only to a *limited* extent and functions *poorly* in regard to it; or it makes *no provision* for meeting a needed criterion.

M—Missing. The element identified in the question is missing, but the agency's need for it is open to question.

NA—Not Applicable. The element identified in the question does not apply to the agency.

Comments. Just as not all of the standards necessarily apply to all agencies, not all of every agency's activities are necessarily covered by the standards. The space provided under *Comments* should be used to note any important feature or characteristic of the agency's activity relating to the subject but not included in the standard. Such notations may be supplemented, if necessary, by supporting data attached to the end of the Section, or by cross-references to other Sections. Addenda and cross-references should be accurately identified by notation of the Section and standard to which they pertain. (For example, material attached to the end of a Section might be marked "Supporting Data, Section D-4, 2-1"; a cross-reference might be noted as "See Section C-1, 2.3.3".)

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This section of the *SELF-STUDY AND EVALUATION GUIDE* is designed for use in conjunction with the other sections listed below. Any agency* undertaking a self-study will need the first seven sections listed below plus all *D* sections pertaining to the agency's services, an *E* form for each administrative, professional, and technical staff member, and the evaluation summary and report section.

The *GUIDE* is available either in a complete, bound edition or in separate sections from the National Accreditation Council for Agencies Serving the Blind and Visually Handicapped, 84 Fifth Avenue, New York, N.Y. 10011.

SELF-STUDY AND EVALUATION GUIDE

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A	Manual of Procedures
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*Special guides are available for agencies providing *only* sheltered workshop services (*SELF-STUDY AND EVALUATION GUIDE FOR SHELTERED WORKSHOPS*) and for residential schools (*SELF-STUDY AND EVALUATION GUIDE FOR RESIDENTIAL SCHOOLS*).

C-2
FINANCIAL ACCOUNTING AND SERVICE REPORTING

Guiding Principles

In determining standards to judge an agency's performance in meeting its responsibilities to the public, two fundamental factors must be taken into consideration. The first might be termed the problem of applicability: standards for financial accounting and service reporting must be formulated in the knowledge that variations among agencies will necessarily give rise to variations in applicability of the standards. The second factor involves the question of relevance of standards to non-business circumstances. Standards contemplating the discharge by community agencies of their responsibilities for management accountability and disclosure must be primarily relevant to the sole purpose for which such agencies exist: to serve people.

This question of relevance does not lessen the obligation of non-profit agencies to manage their affairs well and to report fully upon that management. It does, however, mean that accounting standards for them must strike a balance in order that, on the one hand, agencies are not so burdened with the mechanics of stewardship as to be diverted from their essential function of serving people, nor, on the other hand, are they permitted to lose sight of their heavy responsibilities to the public that supports them. On the question of relevancy, it should also be noted that, while these standards have their most direct application in the voluntary field, many are equally applicable to public agencies.

The standards presented herein are organized around six key questions:

1. **Will meeting the standards provide an adequate body of historical, quantitative facts?**

While every record-keeping system must be designed to meet the agency's particular needs, there are bedrock standards and accounting principles applicable and relevant to all. These are presented in *1. General Accounting and Financial Procedures.*

Adequate record-keeping does not imply complexity; on the contrary, every system must be as simple, efficient and economical as is consistent with the agency's needs. Adequacy of record-keeping is essential to the function of serving people.

2. **Will meeting the standards provide adequate internal controls to safeguard against errors and losses?**

Adequate record-keeping, budgeting procedures and current, meaningful financial reports to the governing body are all essential elements in any agency's internal control. Specific measures are presented in *2. Internal Safeguards and Controls.*

3. **Will meeting the standards provide adequate administrative control and reasonably effective financial planning through budgets based on historical data projected to give effect to current and estimated future operations?**

Every agency, regardless of size or program, faces the hard fact that its resources are limited and that it must identify its priorities for service. Every agency, therefore, needs a well-defined approach to budgeting, which is merely a process of continuous assessment of progress, needs and future courses. Standards in this crucial area are set forth in *3. Budgets.*

4. Will meeting the standards provide a sound basis for determining overall program costs, including costs of services and products for which fees are set?

Voluntary and public agencies of all sorts are finding an increasing need for cost analysis and for functional accounting by programs or departments. Of far-reaching impact is likely to be the report resulting from the Uniform Accounting Project of the National Health Council and National Social Welfare Assembly, which recommends functional reporting of expenditures by voluntary agencies as a standard for public disclosure (see question 6). The importance of functional accounting for many purposes, already great, will undoubtedly grow. Related standards are presented in *4. Functional Accounting.*

5. Will meeting the standards provide the necessary service statistics for use in assessing the agency's work?

Service statistics constitute only one of several tools for assessing progress and performance. They are particularly useful in comparing agencies providing similar services. The program of any given agency, and the needs of its management, must ultimately determine the type, form and content of the service statistics reports it prepares and uses. Some of the broad considerations in this area are presented in *5. Service Statistics.*

6. Will meeting the standards enable the agency to meet its responsibility for full and meaningful public disclosure of its finances and operations?

Clearly, it would benefit the contributing public to have the same accounting basis used by every agency, and to receive financial reports that are, as far as practicable, uniform. Accepting uniform financial accounting as a desirable objective, the National Health Council and the National Social Welfare Assembly joined together in 1962 to sponsor an effort to define standards for accounting and financial reporting by voluntary agencies. This effort, known as the Uniform Accounting Project, resulted in the report, *Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations.* Pertinent sections have been incorporated in many of the standards presented herein, particularly in *6. Public Accountability and Disclosure.*

1. GENERAL ACCOUNTING AND FINANCIAL PROCEDURES

( ) 1.1 PURPOSES OF STANDARDS. The agency maintains a system of accounting and fiscal control which meets its needs as simply and inexpensively as possible for purposes of (a) insuring efficient day-to-day management; (b) providing the governing body and the executive with sufficient information for long- and short-range policy decisions; (c) meeting the requirements for public accountability.

EVALUATION *(Note: It is suggested, since standard 1.1 broadly encompasses the entire system of accounting and fiscal control, that this Evaluation be completed after finishing all of Section C-2.)*

[ ] 1. How adequate is the system of accounting and fiscal control for the purpose stated?

[ ] 2. How well is the system maintained?

Comments:

( ) 1.2 BOOKKEEPING SYSTEM. The agency uses a double-entry form of bookkeeping.

Comments:

( ) 1.3 ACCRUAL ACCOUNTING. The agency uses the accrual basis of accounting in preparing both internal and external financial reports.

( ) 1.3.1 Pledges and other amounts receivable but not yet collected are included, with appropriate provision for estimated amounts uncollectible.

( ) 1.3.2 Liabilities for expenses incurred (including wages and salaries) and assets acquired are included.

( ) 1.3.3 The agency that normally maintains its records on the cash basis, and periodically adjusts them to the accrual basis for preparing its reports, meets this standard.

EVALUATION *[ ] 3. How adequately does the agency's accounting system provide for internal and external financial reports to reflect its financial condition on an accrual basis?*

Comments:

( ) 1.4 CHART OF ACCOUNTS. Agency accounting records include a chart of accounts (Appendix A) which lists the titles of all accounts used in the agency's ledgers and journals, describes the types of items (revenues, expenses, assets, etc.) to be recorded in each account, and designates a numerical or other code for identification of each account.

( ) 1.4.1 Using those classifications which are applicable to its financial operations, the agency's chart of accounts is subdivided into sections and classifications corresponding in title and content to the classifications outlined in Appendix A.

( ) 1.4.2 Within each of these classifications, the agency establishes individual accounts for types of support from the public, revenue, functional and object expenses, assets, liabilities and fund balances appropriate to its own organization, activities and accounting needs.

( ) 1.4.3 Once the chart of accounts is installed, it is maintained on a consistent basis from year to year.

1.4.3.1 This does not, however, preclude modifications required by virtue of changes in the agency's operations.

EVALUATION [ ] 4. *To what extent is the agency's chart of accounts consistent with that described in Appendix A?*

[ ] 5. *How well is the agency's chart of accounts designed to provide full and meaningful public disclosure of agency finances and operations?*

Comments:

1.5 BASIC BOOKS OF ENTRY. The agency maintains at least the following basic books of account:

( ) 1.5.1 Cash receipts and disbursements book for chronological recording of financial transactions.

( ) 1.5.2 General ledger for recording all financial transactions, using the chart of accounts as the basis for classifications.

( ) 1.5.3 General journal for recording of non-cash entries.

EVALUATION [ ] 6. *How adequately are the agency's books books of account maintained for these three functions?*

Comments:

( ) 1.6 SUBSIDIARY RECORDS. The agency maintains all other financial information necessary to achieve effective management and provide full public disclosure *(6. Public Accountability and Disclosure).*

( ) 1.6.1 This information may include such subsidiary records as accounts receivable, accounts payable, contributors pledge book, payroll book, equipment inventory.

( ) 1.6.2 The agency carefully evaluates its requirements, consulting its independent auditor and such other persons as may provide expert counsel, in determining what subsidiary records are needed.

EVALUATION [ ] 7. *To what extent does the agency maintain subsidiary records for the purposes stated?*

Comments:

1.7 FUNCTIONAL DISTRIBUTION. The system of agency records provides for a distribution of objects of income and expenditure by functional categories. (Ratings and evaluations should be made in *4. Functional Accounting.)*

( ) 1.8 MINUTE BOOK. The agency maintains in permanent form minutes of its governing body and of those committees or other groups to which the governing body has delegated specific authority to act.

( ) 1.8.1 Minutes reflect the financial authority delegated by the governing body to its finance committee, treasurer, executive officer or others.

( ) 1.8.2 Minutes record the governing body's fiscal actions concerning the annual budget, acceptance of restricted funds, appropriations for specific purposes and all other authorizations involving agency resources and financial commitments.

Supplemental Data:

Has the governing body delegated specific authority to act on financial matters to any of the following?

	Yes	No
Executive committee	☐	☐
Financial committee	☐	☐
Officers	☐	☐
Executive officer (or administrator)	☐	☐
Others (specify) _____	☐	☐

EVALUATION *[ ] 8. To what extent do the minutes reflect financial actions taken by the governing body or others delegated by it to take such actions?*

Comments:

( ) 1.9 MAINTENANCE OF THE SYSTEM. The agency assigns to one or more staff members the responsibility for maintenance of books and records.

( ) 1.9.1 When the system is installed, when a major change is made in it, or when new staff members are assigned to its maintenance, training and instruction are provided by a qualified person.

( ) 1.9.2 Periodic administrative review is made to determine whether the system is being properly maintained.

( ) 1.9.3 The agency instructs its independent auditor to report any deficiencies in the maintenance of the system and to recommend any desirable changes.

EVALUATION *[ ] 9. To what extent has the agency taken the steps suggested to establish responsibility for the accounting system, to supervise it, and to train those who operate it?*

[ ] 10. How adequate, in terms of training and experience, is the assigned supervisory and operating staff?

Comments:

( ) 1.10 CAPITAL ACCOUNTS, GIFTS, BEQUESTS, OTHER RESOURCES. The agency has clearly defined policies on the handling of capital accounts, new gifts, real property and all other resources.

( ) 1.10.1 Agency funds are used only for purposes designated.

( ) 1.10.2 The governing body determines procedure for authorizing acceptance of substantial restricted or unrestricted gifts.

( ) 1.10.3 Buying and selling of real estate, securities and other assets is done only under well-defined policies which provide protection against faulty judgment or defalcation by individuals.

( ) 1.10.4 The agency follows a prudent investment policy and, to that end, has a knowledgeable group, such as a qualified investment committee or a bank, overseeing its investments.

EVALUATION [ ] *11. How adequate are agency policies on the handling of capital accounts, new gifts, real property and all other resources?*

Comments:

( ) 1.11 EFFICIENT CONSERVATION OF RESOURCES. The agency is alert to all opportunities for conserving resources.

( ) 1.11.1 Surplus cash not immediately needed is placed in time deposits, short-term government notes or other appropriate places where interest may be earned.

( ) 1.11.2 The agency takes full advantage of tax benefits available in its locality, such as exclusion of non-profit organizations from sales and admission taxes. It does not engage in business activities, fail to file the necessary exemption forms or in any other way act so as to endanger its tax exemption.

( ) 1.11.3 The agency investigates possible savings in insurance premiums through issuance of policies over three- or five-year periods rather than annually.

( ) 1.11.4 The agency takes advantage of non-profit organization bulk mailing rates when feasible, including free mailings for the blind available under certain conditions.

EVALUATION [ ] *12. To what extent does the agency follow the suggested procedures for the efficient conservation of resources?*

Comments:

( ) 1.12 SOUND BUSINESS PRACTICES. The agency follows sound business practices and maintains a responsible attitude at all times in safeguarding its own resources, in business dealings and in all other relationships.

EVALUATION [ ] *13. To what extent does the agency follow sound business practices in safeguarding its resources?*

Comments:

2. INTERNAL SAFEGUARDS AND CONTROLS

Insofar as internal controls pertain to safeguarding assets and to checking the accuracy and reliability of accounting data, two distinct types of control are entailed.

The first, error control, relates to the entire accounting process whereby authorized transactions of all sorts are consummated, recorded, classified, summarized and reported; it relates also to the safeguarding of assets against all perils other than internal dishonesty: against, for example, misplacement, destruction, erosion by the elements, waste, theft by outsiders, etc.

The second, fraud control, consists of the various measures taken to safeguard specifically against acts of embezzlement, misappropriation or fraud committed by persons within the agency.

There is a fundamental distinction between these two types of control. Every agency can and should have effective error control, but there are practicable limits to fraud control. No agency, however large, can have more than probable effectiveness of its system of fraud control. No matter how elaborately the system provides for division of duties, for review of the work of one person by another, and for procedural steps in these duties, it cannot withstand collusive acts between supposedly independent persons, nor can it withstand deliberate acts by trusted persons in a position to circumvent the system, nor is it proof against ingenuity and daring on the part of a defalcator. In the final analysis, an agency's protection against fraud lies in human character.

The broad responsibility for establishing, supervising and maintaining a satisfactory system of internal control rests with the agency's governing body. The annual audit by independent public accountants is not a substitute for an adequate system of internal control operating throughout the year; it is not designed, and cannot be relied upon, to detect fraud. In two important respects, however, the annual audit bolsters the system of internal control. First, it involves a professional review of the system as designed and as actually functioning; second, it gives agency management a source of professional advice on how to maintain and improve the system.

Error Control

( ) 2.1 REVENUES. All revenues are promptly and accurately recorded (a) as agency assets, and (b) as contributions, additions to funds, etc.

( ) 2.1.1 Accountability is established at the first practicable point in the flow of transactions (e.g., from solicitors' reports, mail-opener's lists or similar source data.)

( ) 2.1.2 Detailed records of cash received are prepared as of the day of receipt and are used as the medium for entry to general ledger accounts.

( ) 2.1.3 Detailed records of pledges, related collections and uncollected balances are kept in up-to-date form; if pledges receivable are posted to the general ledger on a current basis (rather than only at the time of public reporting), uncollected balances as shown in the detailed pledge records are periodically totalled and agreed with the general ledger account.

( ) 2.1.4 As necessary and appropriate, detailed records of securities or other valuable property are kept in up-to-date form.

( ) 2.1.5 Acknowledgement forms, solicitors' reports and similar source documents, prepared at the time of receipt as an original record of collections, are numbered in sequence, preferably by the printer, and are accounted for by number.

( ) 2.1.6 Full use is made of cross-checks available in the accountability records. This embraces, for example, double-entry cash receipts records; comparison of totals shown by different records such as the cash receipts book, a mail-opener's list and a duplicate deposit slip; comparison of totals of detailed subsidiary records with related general ledger controlling accounts (e.g., uncollected pledges or other receivables).

EVALUATION [ ] 14. How adequate are procedures for promptly and accurately recording all revenues as assets, and as contributions, additions to funds, etc.?

Comments:

( ) 2.2 CUSTODY OF ASSETS. All assets are handled in a prudent, business-like manner, appropriate to their nature, to prevent their loss, theft by outsiders or deterioration.

( ) 2.2.1 Checks and currency are deposited in the form received, without unnecessary delay, in bank accounts authorized by the governing body; acknowledgement of deposit is obtained from the bank.

( ) 2.2.2 Adequate efforts, appropriate to the agency's policy, are made to collect pledges and other receivables; collectibility of pledges and other receivables is realistically reviewed; uncollectibles are written off on approval of an authorized committee or official.

( ) 2.2.3 Pledge and other receivable records are protected from fire and other damage.

( ) 2.2.4 Safety deposit facilities or their equivalent are used for securities, etc.

EVALUATION [ ] 15. How adequate are policies and procedures for safeguarding assets from loss, theft by outsiders and deterioration?

Comments:

( ) 2.3 VERIFICATION OF ASSETS. All assets owned are periodically verified and compared with accountability records, and the comparison reviewed by an appropriate official.

( ) 2.3.1 Bank accounts are regularly and completely reconciled, preferably by making a complete comparison of transactions recorded by the bank with those shown in the cash book; all unusual reconciling items are disposed of on proper authority.

( ) 2.3.2 Securities, etc. are periodically counted (or confirmed if held by a bank or other independent custodian) and compared with accountability records, with the results supervised by or reported to an appropriate official.

EVALUATION [ ] 16. How adequate are procedures for verification of assets?

Comments:

( ) 2.4 INSURANCE PROTECTION. Fire, casualty and liability insurance coverage are maintained in amounts adequate, but not excessive, for the agency's needs.

( ) 2.4.1 Types of insurance and amounts of coverage are periodically reviewed by qualified persons and their findings and recommendations considered by the agency's governing body.

EVALUATION [ ] 17. *How adequate are procedures for maintaining appropriate insurance coverage?*

Comments:

( ) 2.5 CONTROL OVER GENERAL EXPENDITURES. In addition to meeting the standards presented in *1.4 Chart of Accounts* and *3. Budgets,* the agency employs other appropriate methods of error control over expenditures.

( ) 2.5.1 All expenditures are promptly and accurately recorded (a) as expenses (or assets) and (b) as reductions of cash (in agencies using a voucher system, as reductions of accounts payable).

2.5.2 Whether an agency distributes its expenditures to appropriate accounts through a voucher register separate from its disbursement records, or whether such distribution is made in the cash disbursements journal at the time of payment:

( ) 2.5.2.1 A detailed record of expenditures is prepared and used as the medium of entry to the general records.

( ) 2.5.2.2 All checks are recorded in detail (date, number, payee and amount) in the disbursement records as of the date drawn; checks are numbered in sequence, preferably by the printer.

( ) 2.5.2.3 Full use is made of cross-checks available in the accountability records. This embraces, for example, double-entry cash disbursement records; comparison of totals shown by different records (such as the total of a day's checks drawn and the total of vouchers marked off as paid that day); comparison of totals of detailed subsidiary records with general ledger controlling accounts (such as, where applicable, unpaid vouchers).

( ) 2.5.3 All expenditures (other than small convenience outlays in cash from a petty cash fund) are made by check.

( ) 2.5.3.1 Persons authorized to sign checks are designated by the governing body.

( ) 2.5.3.2 Checks are signed by two persons. Single-signature checks, however, are satisfactory for certain special accounts, such as payroll, if operated on the imprest basis (i.e., with a fixed balance maintained by periodic reimbursements).

( ) 2.5.3.3 No checks are signed in blank.

( ) 2.5.3.4 Checks are safeguarded against alteration by means of protectors, special paper, proper form of drawing, etc.

( ) 2.5.3.5 Bank reconciliation procedures (2.3.1) include review of endorsements, at least of endorsements on checks representing major disbursements.

( ) 2.5.3.6 There is no access to the petty cash fund except by the person responsible for it; the fund is limited in amount and purpose, and is kept on the imprest basis.

( ) 2.5.4 All expenditures are reviewed and approved, before payment, as to mathematical accuracy and propriety of payment.

( ) 2.5.4.1 Checks presented for signature are supported by documents evidencing the performance of all necessary review (e.g., of clerical accuracy of invoices, of receipt of related goods or services as ordered and of authorization to spend).

( ) 2.5.4.2 Supporting documents are cancelled to prevent duplication of expenditures.

( ) 2.5.4.3 Disbursements are made within the discount period, if any; otherwise, when (and not unnecessarily before) due

EVALUATION [ ] 18. How adequate are agency procedures for control of general expenditures?

Comments:

2.6 CONTROL OVER PAYROLL EXPENDITURES. Depending upon number of employees, rate of turnover, nature of services rendered and basis of remuneration, payroll expenditures may involve special standards of error control. In agencies where payroll expenditures are merely recurring payments in recurring amounts to the same few persons, the same standards of error control apply as to other expenditures. In other agencies, however, where there may be many employees performing a wide range of duties, where turnover may be high or where compensation may vary from pay period to pay period because of overtime pay or other special bases of remuneration, the following standards are required.

( ) 2.6.1 Individual records are kept of employees' earnings and withholdings.

( ) 2.6.2 All reports relating to wages, withholdings and payroll taxes are rendered, as prescribed by law, to employees and to local, state and federal authorities.

( ) 2.6.3 Changes in personnel, in status and in rates of compensation are formally approved and documented; orderly historical files are maintained.

( ) 2.6.4 Data to compute current compensation (hours worked, overtime, special benefits, deductions, etc.) are documented and approved; orderly current files are maintained.

( ) 2.6.5 Data to compute compensation, including permanent changes and current information, are promptly and accurately furnished to those preparing payrolls.

( ) 2.6.6 Payrolls are accurately computed and charged to appropriate expense accounts.

( ) 2.6.6.1 Preparation and accounting distribution are reviewed, the extent of review depending on size and complexity of payroll and on type of data processing.

( ) 2.6.7 The payroll listing is reviewed and approved by responsible officials, preferably before payment.

( ) 2.6.8 Wages are preferably paid by check; if paid in cash, payroll funds are physically protected and insured against robbery and loss, and signed receipts are obtained from employees.

( ) 2.6.8.1 A special payroll bank account, operated on the imprest basis, is used if a significant number of payroll checks (say,50 or more) are drawn each month.

EVALUATION [ ] 19. *How appropriate are procedures for control of payroll expenditures in terms of the number of employees, the diversity of operations, and the bases of remuneration?*

[ ] 20. *How adequate are procedures for control of payroll expenditures?*

Comments:

Fraud Control

The key principle of fraud control is separation of duties, so that no one person controls all phases of a transaction. A second principle is surrounding the duties of custody, record-keeping, authorization and review with appropriate procedural steps intended to prevent acts of misappropriation and to prevent manipulations to hide such acts if they do occur.

( ) 2.7 PERSONS IN POSITIONS OF TRUST. The background of every person appointed to a position of trust is established to the satisfaction of the agency's governing body.

( ) 2.7.1 Every such person is bonded, with fidelity coverage adequate for the position.

EVALUATION [ ] 21. *How adequate are procedures for protecting the agency relative to persons in positions of trust?*

Comments:

( ) 2.8 SEPARATION OF DUTIES. The agency achieves the most complete separation practicable of the duties of (a) custody of assets; (b) keeping accountability records related to such assets; and (c) authorization and approval of transactions. Table 1 (see following page) presents a chart of common general duties, showing those that are incompatible from the standpoint of fraud control. Table 2 (see following page) is a similar chart of payroll duties. While only large agencies can possibly have the optimum separation that produces optimum fraud control, it may be taken as a general rule that, the greater the concentration of incompatible duties, the less effective the agency's system of fraud control.

2.8.1 Within the limits of practicability, certain duties are separated:

( ) 2.8.1.1 Employees who handle, record and bank incoming cash have no duties with respect to either keeping pledge (or other receivable) records or authorizing write-offs of pledges or other receivables.

( ) 2.8.1.2 Neither employees who handle, record and bank incoming cash, nor employees who prepare vouchers, draw checks and keep disbursement records, have any duties with respect to either preparing bank reconciliations or keeping the general ledger.

( ) 2.8.2 In an agency too small to make possible either or both of these crucial separations, an official exercises close supervision and makes occasional detailed review of the related transactions.

EVALUATION [ ] 22. *How adequate, in relation to the size of the agency staff, are procedures separating duties of employees (a) having custody of agency assets, (b) keeping records of accountability, and (c) authorizing and approving transactions?*

Comments:

Table 1

CHART OF COMMON GENERAL DUTIES

SHOWING INCOMPATIBILITY (X) FOR FRAUD CONTROL

	Open, distribute mail	Handle, record, deposit cash	Keep pledge records	Approve pledge write-offs	Prepare, record vouchers and checks	Approve, sign, mail checks	Cancel paid vouchers	Keep general ledger	Reconcile bank accounts
Open, distribute mail		X	X	X				X	
Handle, record, deposit cash	X		X	X	X	X		X	X
Keep pledge records	X	X		X				X	
Approve pledge write-offs	X	X	X					X	
Prepare, record vouchers and checks		X				X	X	X	X
Approve, sign, mail checks		X			X			X	X
Cancel paid vouchers					X				X
Keep general ledger	X	X	X	X	X	X			X
Reconcile bank accounts		X			X	X	X	X	

NOTE: Duties shown in the columns as not incompatible with duties shown on a given line may, however, be incompatible with each other. Thus, at least five persons would be needed for complete separation of all incompatible duties; specific assignments could be made in several ways.

Table 2

CHART OF PAYROLL DUTIES

SHOWING INCOMPATIBILITY (X) FOR FRAUD CONTROL

	Hire, fire and authorize changes	Approve current hours, etc.	Prepare payrolls and checks (or cash)	Approve and sign checks	Distribute pay	Reconcile payroll bank account
Hire, fire and authorize changes		X	X	X	X	
Approve current hours, etc.	X		X	X	X	X
Prepare payrolls and checks (or cash)	X	X		X	X	X
Approve and sign checks	X	X	X			X
Distribute pay	X	X	X			X
Reconcile payroll bank account		X	X	X	X	

NOTE: At least four persons would be needed for complete separation of all incompatible payroll duties.

2.9 PROCEDURAL STEPS. An agency incorporates into its system of fraud control as many of the following procedural steps as may be practicable and relevant:

( ) 2.9.1 Mail is opened by persons independent of the cashier; remittances are listed by the mail-opener and later compared with the cash receipt records by a person independent of both mail-opening and cash-handling duties.

( ) 2.9.2 If mail-openers are not independent of the cashier, mail is opened by an official of the agency and listed by him or under his supervision, or mail is opened and remittances listed by two persons in each other's presence.

( ) 2.9.3 Incoming checks are restrictively endorsed immediately upon receipt.

( ) 2.9.4 Banks are instructed not to cash checks payable to the agency.

( ) 2.9.5 All pledges and contributions are acknowledged, using pre-numbered forms. This procedure is particularly effective if a person independent of the cashier prepares the acknowledgements, compares them with the cash book and mails them.

( ) 2.9.6 Duplicate deposit slips, receipted by the bank, are compared with cash receipts records and with a list of mail remittances, if prepared, by persons independent of either function. In the event of numerous deposits, comparisons may be made on a test basis.

( ) 2.9.7 Pledges written off are made the subject of communication with the pledgor by someone independent of both the cashier and the person keeping pledge records.

EVALUATION [ ] 23. To what extent does the agency follow the procedures listed above relating to pledges and contributions received?

Comments:

( ) 2.9.8 Access to blank checks is limited; checks are prenumbered by the printer; from time to time, unused checks are completely accounted for, by number, by a person who does not prepare checks.

( ) 2.9.9 Checks are mailed directly by the second signer.

( ) 2.9.10 Documentation for disbursements is cancelled at the time of signing checks, by or under the supervision of the signer. Either the first signer or the second signer may cancel, but always the same one.

EVALUATION [ ] 24. To what extent does the agency follow procedures listed above relating to disbursements?

Comments:

( ) 2.9.11 If bank reconciliations are not regularly prepared by a person independent of cash-receiving and disbursing functions, an occasional reconciliation is completely prepared by an independent person. The standard reconciliation procedures (2.3.1) are followed, together with these additional procedures:

( ) 2.9.11.1 Bank statements and paid checks are obtained directly from the bank and controlled until the reconciliations are finished.

( ) 2.9.11.2 Addition of detailed cash records and of general ledger cash account is checked.

( ) 2.9.11.3 All endorsements are reviewed and multiple endorsements investigated.

( ) 2.9.11.4 Signatures are reviewed.

EVALUATION [ ] 25. *If bank reconciliations are not regularly prepared by a person independent of cash receiving and disbursing functions, to what extent does the agency follow procedures listed above?*

Comments:

( ) 2.9.12 Petty cash funds are counted occasionally on an unannounced basis by someone other than the custodian.

( ) 2.9.13 As appropriate and necessary, securities and other assets are periodically examined and compared with accountability records by persons not responsible for either custody or accounting.

EVALUATION [ ] 26. *To what extent does the agency follow procedures listed above for auditing petty cash, securities, and other assets?*

Comments:

( ) 2.9.14 Regular vacations are taken by all employees and their duties temporarily assumed by others.

EVALUATION [ ] 27. *To what extent are personnel accountable for significant sums of cash, securities and other similar assets required to take regular vacations and their duties assumed by others?*

Comments:

2.9.15 Certain procedural steps, relating solely to payroll, are followed:

( ) 2.9.15.1 Payroll checks bear a printed limitation of amount (e.g., "not good for more than $150").

( ) 2.9.15.2 If wages are paid in cash, persons who do not prepare or distribute the payroll compare employees' signed receipts with signatures on withholding forms.

( ) 2.9.15.3 Unclaimed wages are held for distribution in the custody of persons who neither authorize payroll changes nor prepare or distribute pay.

( ) 2.9.15.4 Withholding statements are accounted for, mailed to employees and (if returned or questioned) followed up by persons who neither authorize payroll changes nor prepare or distribute pay.

EVALUATION [ ] 28. *To what extent does the agency follow procedures listed above relative to payrolls?*

Comments:

EVALUATION [ ] 29. *How appropriate are the agency procedures for fraud control, as recommended in all of 2.9, in terms of agency size and operations?*

Comments:

Maintaining the System of Internal Control

( ) 2.10 SUPERVISION. The agency's governing body constantly supervises the system of internal control to satisfy itself that the system (a) is responsive to changing conditions and (b) is in fact operating as designed.

( ) 2.10.1 While a governing body may delegate certain of its authority to others with special competence, such delegation does not alter the fact of its responsibility.

EVALUATION [ ] 30. *How adequately does the governing body carry out its responsibility for the supervision of the agency's system of internal control?*

Comments:

( ) 2.11 ASSIGNMENT OF OPERATING RESPONSIBILITY. Day-by-day operating responsibility for the agency's system of internal control is defined and is assigned to and discharged by an appropriate official.

( ) 2.11.1 Immediate responsibility for such supervision is logically that of the controller; if the agency's organization does not provide for that office, the official normally supervising accounting functions (e.g., the treasurer) assumes day-by-day responsibility for the system of internal control.

EVALUATION [ ] 31. *How adequate is the day-by-day supervision of the agency's system of internal control?*

Comments:

( ) 2.12 INDEPENDENT ACCOUNTANTS. The agency's governing body requests the independent accountants retained for the annual examination to submit a formal memorandum of comments on and recommendations for improvement of the system of internal control.

( ) 2.12.1 Such comments and recommendations are reviewed by the governing body and adopted or rejected on its responsibility.

EVALUATION [ ] 32. *To what extent does the agency request the independent accountants to submit formal recommendations for improvement of the system of internal control?*

[ ] 33. *To what extent are such recommendations put into effect?*

Comments:

3. BUDGETS

Budgeting is a tool for an agency to use in reviewing its total program and establishing its priorities. Here is the opportunity for management to assess where an agency has been, to see where it is and to decide where it can or should go. This is the time when an agency does literally translate desired programs into dollars.

A budget is the recorded financial expression of an agency's projected operation for a given period, showing estimates of expenditures and revenues proposed for financing them. The three types of budgets of concern to most agencies are:

Annual Operating Budget. This presents the financing of an agency's basic program.

Capital or Special Purpose Budget. This covers the financial plan for an agency which has a capital building program or perhaps a special project not geared to the normal fiscal year operation, or not fully integrated into the agency's basic program, and with its own identifiable income and expense.

Cash Flow Budget. This type of budget is important to the agency whose flow of income during the year is uneven. While a budget developed on the accrual basis may be wholly in balance, unless there is attention to cash flow the agency may find itself unable to meet its bills at times. Furthermore, the agency which budgets cash flow may be able, from time to time, to place excess cash in interest-producing accounts, thereby increasing its income.

( ) 3.1 OPERATING BUDGETS. The agency has defined procedures for the preparation, adoption and administration of an annual operating budget.

( ) 3.1.1 Well in advance of the new fiscal year, the appropriate staff and the budget committee appointed by the governing body assemble all pertinent data on program objectives for the next year and estimates of their effect on both income and expense. A careful analysis of total revenue expectations is also developed.

( ) 3.2.2 The appropriate departmental staff or committees who are accountable for control of portions of the budget are involved in budget preparation.

( ) 3.1.3 Where the nature of an agency's operations is such as to create substantial fluctuations in income, expense, inventory or other areas affecting its financial condition, a prorated budget is prepared which gives due weight to seasonal and other factors.

( ) 3.1.4 Criteria taken into consideration in the preparation of the budget are developed by posing such questions as:

3.1.4.1 Have services increased, decreased or remained about the same?

3.1.4.2 How many cases per worker (or employees per foreman) does the agency average? How does this compare with previous years? With other similar agencies? With accepted norms for this field of service?

3.1.4.3 Has consideration been given to factors affecting changes in costs?

3.1.4.4 Are expenditure items consistent with plans for the year?

3.1.4.5 Has due consideration been given to all potential sources of earned income, such as fee scale adjustments, more productive investment of assets or purchase-of-service arrangements with government or other groups?

EVALUATION [ ] 34. *To what extent does the agency follow procedures listed above for the preparation of the budget?*

Comments:

( ) 3.1.5 Action by the governing body is taken sufficiently in advance of the beginning of the fiscal period to permit efficient application of the new budget.

( ) 3.1.6 Such action is fully recorded in minutes of the governing body, and a copy of the approved budget filed with the permanent minutes.

EVALUATION [ ] 35. *To what extent does the agency follow the procedures listed above regarding the adoption of the budget?*

Comments:

( ) 3.1.7 During the fiscal year the agency regularly assesses income production and continuously controls expenditures, using the approved budget for both purposes.

( ) 3.1.7.1 When a budget needs revision in the light of changed conditions, significant departures from budgeted objects of expenditure are permitted only under authorized procedures.

( ) 3.1.7.2 It is the duty of the responsible officer or officers (executive, treasurer, etc.) to identify, as early as possible, trends which may affect the ability of the agency to produce projected income or stay within the limits of approved expenditures, and to report such trends to the governing body for appropriate action.

( ) 3.1.7.3 Revisions of budgeted income and expenditures are reviewed not only in terms of their net effect on operations for the current fiscal period but also for their effect on future years.

( ) 3.1.8 The agency has an adequate plan for distribution of budgetary data in order that governing body and administrative staff may use it effectively in making policy decisions and in maintaining day-to-day budget administration.

( ) 3.1.8.1 Monthly reports are available both to management and to the governing body or its designated committee showing comparisons of budgeted and actual revenue and expense for (a) the past month, (b) the year to date and (c) variance from the prorated budget for the year to date.

EVALUATION [ ] 36. *To what extent does the agency follow the procedures listed above for control of expenditures in terms of the operating budget?*

Comments

[ ] 37. *How adequate are agency procedures, as recommended in all of 3.1, for preparation, adoption and administration of the annual budget?*

Comments

( ) 3.2 CAPITAL AND SPECIAL BUDGETS. Other special budgets are administered under the same standards as those governing the operating budget, but are separated from the operating budget in order to maintain effective control.

( ) 3.2.1 Capital construction budgets have appended time tables for completion of construction, a statement of payments to be made to the contractor as the construction proceeds, and provision for regular construction reports which, among other things, call attention to changes, additions or deletions from the original specifications in order to anticipate the ultimate effect on total cost and to institute needed revisions in budget.

Supplementary Data:	Yes	No
a. Does agency have construction in progress?	☐	☐
b. Does agency have plans for construction?	☐	☐
c. Has a capital budget been established?	☐	☐
d. If agency has constructed major physical facilities in the past, when was the last facility completed?	_____	
e. Was construction controlled by a capital budget?	☐	☐

EVALUATION [ ] 38. *To what extent does the agency follow the procedures listed above for control of capital construction projects?*

[ ] 39. *How adequate are the agency's procedures for the preparation, adoption and administration of the capital budget?*

Comments:

( ) 3.3 CASH FLOW BUDGETS. The agency projects estimates of the timing for receipt of major income and for disbursement of major expenditures in order that potential problems in meeting current obligations may be avoided.

( ) 3.3.1 If the agency faces problems of maintaining a liquid cash position, this is a factor in the total budget consideration at the time the operating budget is being studied, well in advance of the beginning of the fiscal year.

3.3.2 Monthly financial and budget reports prepared for review by the governing body, executive and others reflect such facts as:

( ) 3.3.2.1 Cash balances in checking accounts for beginning and end of period.

( ) 3.3.2.2 Changes in accounts receivable and payable if these are significant items in the agency's finances.

( ) 3.3.2.3 Activity in the agency's capital accounts.

EVALUATION [ ] 40. *To what extent do the agency's monthly or other periodic financial and budget reports provide for adequate control of cash flow?*

[ ] 41. *How adequate are agency procedures for maintaining a reasonable liquid cash position?*

Comments:

4. FUNCTIONAL ACCOUNTING

As defined by *Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations,*[1] functional reporting of expenses is, in effect, a method of distributing "the expenses of particular activities according to their essential purpose."

There are many reasons why functional accounting or reporting in some form must be considered a requirement of the future for all health, welfare and rehabilitation agencies, including those serving the blind and visually handicapped.

☐ Government, foundations and other organizations or individuals purchasing services from agencies increasingly require verification of unit costs for services provided. A sound costing system provides the basis for including appropriate indirect costs in fees for reimbursement.

☐ State and local charitable regulatory bodies increasingly require certain functional breakdowns of agency expense, such as fund-raising expense.

☐ The contributing public and taxpayers or their representatives want to know the specific services rendered by agencies, and the costs for each, as one method of evaluating the case for continuing support.

☐ Agencies need more specific factual data on their costs for self-evaluation of program and program costs, for projecting future budgets, for better interpretation of program to agency constituencies and for more effective internal administrative controls.

( ) 4.1 CLASSIFICATION OF EXPENDITURES. The agency has a well-defined system and procedures for functional reporting of expenditures conforming in content and format to those prescribed by *Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations.* *(See Appendix A, Table A–1, Chart of Accounts Classifications.)*

( ) 4.1.1 Expenditures are classified into the major functional categories of:
- a. Program Services
- b. Supporting Services:
  - Management and General Fund-Raising:
    - General Support
    - Building Funds Campaign
- c. Payments to Affiliated Organizations

( ) 4.1.2 Where possible, expenses are recorded initially by function as well as by object.

( ) 4.1.3 Where program expenditures benefit more than one function, they are distributed on a consistent basis from year to year among the functions only if a measurable basis for the distribution is readily available (e.g., the number of square feet in a building used for a given activity; the time devoted to each of several functions by an employee, calculated by a standard method for establishing time ratios; the average hours of use for various parts of an agency building; or similar factors). Otherwise, they are charged to the function primarily benefited.

( ) 4.2 SUB-CATEGORIES. Program expenses are broken down into sub-categories of service wherever possible.

[1]National Health Council and National Social Welfare Assembly, 1964.
Copies my be purchased from National Health Council, 1790 Broadway, New York, N.Y. 10019. The price is $5.75.

( ) 4.2.1 Where categories applicable to the agency's program have already been developed by standard-setting bodies, the agency uses such categories, provided their use is not inconsistent with the definitions of program services contained in the aforementioned document.

Supplemental Data:

If the agency uses categories of services for recording program expenses which have been developed by a particular standard-setting body, please identify that organization and cite the title of the document describing the chart of accounts used.

_____

_____

_____

_____

EVALUATION [ ] 42. *How adequate is the system and chart of accounts used for recording expenditures according to the major functional categories listed in 4.1.1 above and sub-categories wherever possible?*

Comments:

5. SERVICE STATISTICS

For the agency which has developed a system of financial accounting for its several functions, a parallel system of service accounting is obviously indicated as a basis for devising unit costs.

Service statistics are primarily of value in determining quantitative aspects of an agency program. Among the benefits derived are facts relating to numbers of persons served, the segments of population being served, the amounts of staff time required to provide specified kinds of service, the kinds of problems brought to the agency and the manner of their disposition.

( ) 5.1 REPORT FORMS. The agency has a single established report form, devised especially for its complex of services, which is used uniformly by all staff members rendering direct services to clients. A sample form is given in *Appendix B.*

( ) 5.1.1 Units of count are consistent to the greatest extent possible with program sub-categories (4.2).

( ) 5.1.2 Each staff member is provided with written instructions for use of the report form, including precise delineation of services to be reported and clear definitions of terms used in the form.

( ) 5.1.3 Each staff member maintains a brief daily log from which he can submit a periodic report, preferably monthly.

EVALUATION *[ ] 43. How adequately does the agency's reporting form reflect the complex of services provided by the agency?*

Comments:

( ) 5.2 INTAKE REPORTING. The agency provides an unduplicated count of clients through central intake or some form of central registration.

( ) 5.2.1 Periodic reports provide for clear distinctions between clients accepted for service and those given a fringe service (e.g., referral to another agency, or provision of a single bit of requested information).

( ) 5.2.2 Periodic reports provide for identification of basic characteristics of persons accepted for service such as age groups, sex, degree of vision, nature of problems for which help is being sought, etc.

EVALUATION *[ ] 44. To what extent does the agency's reporting system provide an unduplicated count of both clients accepted for service and clients given fringe services?*

[ ] 45. How effectively does the system identify the basic characteristics of clients accepted for service?

Comments:

( ) 5.3 ACTIVE CASELOAD. Periodic reports account for the number of persons served.

( ) 5.3.1 The reports distinguish among persons receiving continued service from the previous period, those accepted for service during the current period and those for whom services have been discontinued during the reporting period.

( ) 5.3.2 In the case of group activities, such as educational classes or leisure time activities, report forms provide for a count of the activities themselves as well as of the persons involved in them.

EVALUATION *[ ] 46. How adequately does the agency's reporting system reflect the number of persons and groups actively served, the number of persons accepted for service, and the number of those for whom service has been discontinued?*

Comments:

( ) 5.4 WORK LOAD. Periodic reports account for the number of interviews held by staff personnel with clients served and the number of interviews held with others in relation to the rendering of service.

( ) 5.4.1 Because of the time factor involved, office interviews are counted separately from home interviews and other community visits.

EVALUATION *[ ] 47. How adequately does the agency's reporting system reflect the number and location of client contacts, or contacts with others on behalf of the client?*

Comments:

( ) 5.5 SERVICES RENDERED. Specific services provided by the agency are listed on the report form; services rendered are accounted for by staff personnel under the appropriate headings.

( ) 5.5.1 Reasons for discontinuance of service are classified and counted.

EVALUATION *[ ] 48. How adequately does the agency's reporting system account for the specific services provided by the agency in a reporting period?*

[ ] 49. How adequately is the reason for discontinuance of services provided to a client during a reporting period shown by the reporting system?

Comments:

( ) 5.6 USE OF SERVICE REPORTS. Both the administrative staff and the governing body periodically review service data in sufficient detail to identify significant factors or trends and their effect on administrative and program planning.

EVALUATION *[ ] 50. How effectively do the administrative staff and governing body make use of the service reports in administrative and program planning?*

Comments:

( ) 5.7 REVIEW OF SYSTEM. The agency periodically reviews its system of service reporting to determine whether revisions are required.

Supplemental Data:

a. How frequently is the reporting system reviewed to determine whether revisions are required?

_____

b. When were the last significant revisions made? _____

EVALUATION *[ ] 51. How effectively does the agency use periodic reviews of the reporting system to determine whether revisions are required?*

Comments:

6. PUBLIC ACCOUNTABILITY AND DISCLOSURE

( ) 6.1 ANNUAL REPORT. The agency prepares an annual financial report for the public that includes financial statements conforming in content and format to those prescribed by *Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations*[2] and *Forms and Instructions Recommended to State and Local Regulatory Bodies for Uniform Financial Reporting by Voluntary Health and Welfare Organizations.*[3]

EVALUATION *[ ] 52. How adequately does the content and format of the annual report provide full and accurate public disclosure of the agency's financial activities?*

Comments:

( ) 6.2 MANDATORY ACCOUNTING STANDARDS. In the preparation of these financial statements, the following mandatory accounting standards are observed:

( ) 6.2.1 All significant pledges, invoices and other amounts receivable or payable by the agency are accounted for on the accrual basis.

EVALUATION *[ ] 53. To what extent does the agency follow the above mandatory standard for the recording of assets obtained and liabilities incurred?*

Comments:

( ) 6.2.2 The costs of all fixed assets purchased by the agency are reported as expenditures in its Summary of Financial Activities in the year of their acquisition.

( ) 6.2.3 The agency's Balance Sheet includes reasonable valuations for the major classes of land, buildings and equipment it owns.

( ) 6.2.4 No charges for depreciation, in the generally accepted accounting sense of the term, are included in the aforesaid Summary of Financial Activities.

( ) 6.2.5 The agency that desires to recognize the reduction, with time, of the value of its buildings and equipment may do so only by direct reduction of the assets, and of the offsetting investment account, in its Land, Building and Equipment Fund.

( ) 6.2.6 Inclusion in reported expenditures of estimated provisions for replacement is acceptable if made under a regular and consistent policy with respect to fixed assets of revenue-producing activities that are intended to be self-supporting. If such provision is made, the agency concurrently segregates equivalent amounts in a separate fund for replacement of the designated assets.

( ) 6.2.6.1 A Fixed Asset Replacement Fund is accounted for in the agency's Balance Sheet within the Unexpended Funds section of its Land, Buildings and Equipment Fund.

EVALUATION *[ ] 54. To what extent does the agency follow the above mandatory standards of accounting for and reporting the value of fixed assets?*

Comments:

[2]See Note 1, page 19.

[3]National Health Council and National Social Welfare Assembly, 1965.

( ) 6.2.7 Donated services of volunteers and of other individuals and organizations independent of control by the agency are neither given a cash value nor reported as such under Contributions in the Summary of Financial Activities.

( ) 6.2.8 Donated land, buildings and other fixed assets, as well as the value of any space furnished rent free to the agency, are reported at their fair market value in the year of receipt.

( ) 6.2.9 Donated materials are not valued or reported as cash contributions in the Summary of Financial Activities unless verifiable, objective bases for valuing them are available.

EVALUATION [ ] 55. *To what extent does the agency follow the above mandatory standards for reporting the value of donated services or assets other than cash?*

Comments:

( ) 6.2.10 The segregation of all financial transactions into the appropriate fund groups is clearly indicated in the agency's accounting source documents, journals, ledgers and financial statements.

( ) 6.2.11 Entries in the agency's accounting records conform meticulously to all restrictions specified by donors or grantors of particular funds and to all designations, whether by budget adoption or by other formal action, of its governing body.

EVALUATION [ ] 56. *How adequately does the agency follow the above mandatory standards for entering financial transactions relating to fund groups and restricted funds in its accounting records and its financial statements?*

Comments:

( ) 6.3 FINANCIAL STATEMENTS. The agency's annual financial statements prepared for the public conform, in content and format, to the definitions, reporting forms and instructions of *Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations.*

( ) 6.3.1 At least the following three forms of statements are included: a) Summary of Financial Activities, b) Analysis of Functional Expenditures, c) Balance Sheet.

( ) 6.3.2 Program service expenditures are segregated in the Summary of Financial Activities and Analysis of Functional Expenditures statements.

( ) 6.3.3 A Statement of Changes in Fund Balances is included for each group of like funds requiring differentiation (6.2.10 and 6.2.11) in the agency's accounting records.

EVALUATION [ ] 57. *To what extent do the financial statements prepared by the agency for the public follow the content and form specified above?*

Comments:

( ) 6.3.4 The agency's accounts are audited annually, in accordance with generally accepted auditing standards, by independent public accountants.

EVALUATION: [ ] 58. *To what extent does the agency follow the above standard regarding the auditing of its accounts?*

Comments:

( ) 6.3.5 The agency makes its annual financial statements reasonably available to all who may request them.

EVALUATION: [ ] 59. *To what extent does the agency follow the above standard regarding the availability of its annual financial statement?*

Comments:

7. PROGRAMMING FOR IMPROVEMENT

A graphic picture of the agency's overall performance emerges when the evaluation ratings from the preceding pages are transcribed onto the Summary Table of Evaluation Ratings. A major value of gaining such a picture is that it spotlights the areas in need of strengthening and thus yields a useful guide to the planning of needed improvements.

Realistically speaking, it is rarely possible for ongoing programs to be subjected to a large number of simultaneous changes. It is, however, both possible and desirable to analyze the problems uncovered through the self-study and evaluation process, and to develop a timetable for tackling them. The process of classifying needed improvements into (1) those already under way, (2) those which can and will be undertaken in the near future, and (3) those which require longer-range planning, produces a program for change which can serve as an orderly guide for action.

The three questions which follow the Summary Table are designed to assist the agency in the development of such a program. They are also designed to help the Commission on Accreditation evaluate the agency in terms of one of the Commission's governing principles: "If deficiencies exist, the agency is willing to remedy them, and gives evidence of being capable of effecting the needed remedies within a reasonable period of time."

It should be borne in mind that changes are not necessarily restricted to the weaker areas of service or administration. If plans for improvement are contemplated in areas which are already good or excellent, so as to make them even better, these should not be overlooked in responding to the questions.

SUMMARY TABLE OF EVALUATION RATINGS

Instructions: Transcribe the evaluation ratings from the preceding pages onto this table by placing a check mark ( ) in the appropriate column.

Standards to Which Evaluation Questions Relate	EVALUATION QUESTION	EXCELLENT	VERY GOOD	GOOD	FAIR	POOR	MISSING	NOT APPLICABLE
1. General Accounting and Financial Procedures								
1.1 Purposes of Standards	1							
	2							
1.2 Bookkeeping System	--							
1.3 Accrual Accounting	3							
1.4 Chart of Accounts	4							
	5							
1.5 Basic Books of Entry	6							
1.6 Subsidiary Records	7							
1.7 Functional Distribution	--							
1.8 Minute Books	8							
1.9 Maintenance of the System	9							
	10							
1.10 Capital Accounts, Gifts, Bequests, Other Resources	11							
1.11 Efficient Conservation of Resources	12							
1.12 Sound Business Practices	13							
2. Internal Safeguards and Controls								
Error Control								
2.1 Revenues	14							
2.2 Custody of Assets	15							
2.3 Verification of Assets	16							
2.4 Insurance Protection	17							
2.5 Control over General Expenditures	18							
2.6 Control over Payroll Expenditures	19							
	20							
Fraud Control								
2.7 Persons in Positions of Trust	21							
2.8 Separation of Duties	22							
2.9 Procedural Steps	23							
	24							
	25							
	26							
	27							
	28							
	29							
Maintaining the System of Internal Control								
2.10 Supervision	30							
2.11 Assignment of Operating Responsibility	31							

SUMMARY TABLE OF EVALUATION RATINGS (Continued)

Standards to Which Evaluation Questions Relate	EVALUATION QUESTION	EXCELLENT	VERY GOOD	GOOD	FAIR	POOR	MISSING	NOT APPLICABLE
2.12 Independent Accountants	32							
	33							
3. Budgets								
3.1 Operating Budgets	34							
	35							
	36							
	37							
3.2 Capital and Special Budgets	38							
	39							
3.3 Cash Flow Budgets	40							
	41							
4. Functional Accounting								
4.1 Classification of Expenditures	--							
4.2 Sub-Categories	42							
5. Service Statistics								
5.1 Report Forms	43							
5.2 Intake Reporting	44							
	45							
5.3 Active Caseload	46							
5.4 Work Load	47							
5.5 Services Rendered	48							
	49							
5.6 Use of Service Reports	50							
5.7 Review of Ssttem	51							
6. Public Accountability and Disclosure								
6.1 Annual Report	52							
6.2 Mandatory Accounting Standards	53							
	54							
	55							
	56							
6.3 Financial Statements	57							
	58							
	59							

1. What improvements are now under way?

2. What improvements are definitely planned for the immediate future? When are they scheduled for completion?

3. What improvements will require long-range planning to implement? When is it expected that the planning will be undertaken?

Name of Agency _____ Date _____

Completed by _____

_____

_____

Appendix A
CHARTS OF ACCOUNTS FOR AGENCIES SERVING BLIND AND VISUALLY HANDICAPPED PERSONS

Chart of Accounts Defined. A chart of accounts is a coded list of accounts established for recording the assets, liabilities, revenues, expenses and other financial accountabilities of an organization. A carefully planned chart of accounts is usually essential to permit consistent accounting for an organization's financial transactions, both for internal management control and for public reporting purposes. Standard *1.4, Chart of Accounts* incorporates accounting practices applicable to all types of organizations.

Account Classifications. The account classifications presented in Table A-1 are those set forth in *Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations.*[4] This table provides a basis for uniform public financial reporting by any voluntary health, welfare or rehabilitation organization. Agencies serving the blind and visually handicapped should find it a practical basis, moreover, for arranging the detailed accounts necessary to meet their additional accounting responsibilities—to their governing bodies, to federated fund-raising organizations, to local and state regulatory bodies and to other groups. Differences in the activities of individual agencies and in their internal and external accountabilities make it impracticable to present an all-purpose chart of accounts complete with detailed sub-accounts.

Code Identification of Accounts. Code identification of individual accounts in a chart of accounts, whether numerically, alphabetically or by a combination of numbers and letters, is essential: it would be too time-consuming to write the full name of each account affected every time a remittance or expenditure is entered in a cash book, check book or other accounting record.

An obvious coding method is to number an agency's accounts and use each account's number in place of its name. For a very small organization, with only one or two funds, it might be enough simply to list all of its accounts and number them consecutively. For large organizations, however, or for organizations that must anticipate expansion of their detailed accounts as special gifts, program services and expenditures multiply in number and type, mere consecutive numbering of accounts quickly breaks down. Systematic arrangement calls for insertions of new accounts between existing accounts and recourse to lengthening decimal numbers to preserve numerical sequence. Failing this, new accounts have to be added at the end of the existing number sequence, with the result that like accounts—assets, revenues, expenses, etc.—end by being coded with quite unrelated numbers.

With forethought and a systematic approach, a chart of accounts code can be devised that will provide reasonable flexibility while keeping the length of the code within workable limits. By way of illustration, the chart of accounts classifications in Table A-1 have been given a suggested coding system which illustrates the principles generally followed.

How the Code Is Constructed. A standard-length code (seven digits in the Table A-1 illustration) is used. It is subdivided into four units, so that the unit position of a number serves as primary identification of a group of accounts. In Table A-1:

[4] National Health Council and National Social Welfare Assembly, 1964.

The *first unit,* which consists of one digit, designates the *fund group* in which a particular account belongs.

The *second unit,* which consists of one digit, designates the *major account group* to which it belongs.

The *third unit,* which consists of three digits, divides each account group into sub-classifications and designates the *specific account* within each sub-classification.

The *fourth unit* consists of two digits. In the suggested code illustrated in Table A-1, this fourth unit is used only in relation to expenditures. It designates the *immediate object* of an expenditure, its general nature, according to classifications commonly used by all agencies: salaries, rent, postage, etc.

How the Code Works. Let us consider, as an example, an entry relating to an agency's booklet of advice for the parents of blind children. This might be coded *1-3-122-51.*

Since the first unit, *1,* designates the fund group, we see from the table that the Current General Fund, which comprises the agency's general operating accounts, is entailed. The second unit, *3,* designates the major account group—in this case, according to the table, Expenditures. Our first concern, in analyzing expenditures, is to know for what purpose—program or other activity—they were incurred. Here is where we look to the third unit, which designates the functional character of a specific account, in this case an expenditure. By looking in the table under Expenditures, we find our third unit, *122,* to be within the span of numbers (*100–599*) allocated to Program Services; within this functional category, *122* may be the designation for Parent Education.

The fourth unit identifies the specific nature, or immediate object, of this expenditure. In our hypothetical example, it is *51,* which falls into the span of *49–52* reserved for Outside Printing and Art Work in the object category.

Thus our code has yielded the information that out of current general funds (the first unit) we identify an expenditure (second unit) for the specific program service of Parent Education (third unit), the nature of the expenditure being for outside printing (fourth unit).

Other Benefits of a Coding System. An evident benefit of this technique of constructing a coded chart of accounts is that groups of digits may be used to identify more than one account. For example, the numbers *001–049* in the third unit identify Contributions when preceded by *1* as the second unit; when preceded by *7,* the same numbers indicate Accounts Payable.

A sufficient span of numbers is provided for each part of the code to permit extensive subdivision within each major account title sub-classification, e.g., for 49 types of Contributions, for 30 types of Program Service Fees, for seven categories of Salaries, etc.

Finally, to the fullest extent possible, the coding system should result in like accounts being identified by like numbers. Thus, in Table A-1, we see:

Special Events—Proceeds are coded *0-1-050* to *-099*
Special Events—Direct Expenses are coded *0-1-150* to *-199*

This means that individual special events may be distinguished from each other by the last two digits of the third code unit, with *0* as the first digit of this unit identifying the proceeds, and *1* the direct expenses, of a particular event. The use of a given number to designate all entries relating to a particular event minimizes the likelihood of clerical error in mismatching one event's expenses with another event's proceeds.

Table A-1
CHART OF ACCOUNTS CLASSIFICATIONS WITH ILLUSTRATION OF SUGGESTED CODING SYSTEM

Account Classifications [5]	Suggested Code: Fund Group	Major Account Groups	Specific Account	Object Accounts
FUND GROUPS	0	— 0	— 000 —	00
Current General Fund	1			
Current Restricted Funds	2			
Land, Building and Equipment Funds:				
Unexpended Funds	3			
Equity in Land, Buildings and Equipment	4			
Endowment Funds	6			
Funds Functioning as Endowment	8			
Custodian Funds	9			
MAJOR ACCOUNT GROUPS	0	— 0	— 000 —	00
Support from the Public and Revenue		1		
Expenditures		3		
Assets		5		
Liabilities		7		
Fund Balances		9		
SUPPORT FROM THE PUBLIC AND REVENUE	0	— 1	— 000 —	00
Contributions			001-049	
Special Events:				
Proceeds			050-099	
Direct Expenses			150-199	
Endowment Gifts and Bequests			200-249	
Bequests Other than Endowments			250-299	
Indirect Support:				
Associated Organizations			300-329	
Federated Fund-Raising Organizations			330-369	
Unassociated, Non-Federated Fund-Raising Organizations			370-399	
Membership Dues—Individuals			400-499	
Assessments and Dues—Member Units			550-599	
Program Service Fees:				
Governmental Agencies			600-629	
Other Agencies			630-669	
Individuals			670-699	
Sales of Supplies and Services:				
Member Units:				
Sales			701-709	
Direct Costs and Expenses			710-719	
Public:				
Sales			800-809	
Direct Cost and Expenses			810-819	

[5] Source: *Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations*. National Health Council and National Social Welfare Assembly, 1964.

Account Classifications	Suggested Code: Fund Group	Major Account Groups	Specific Account	Object Accounts
Investment Income, Gains and Losses:				
Investment Income			900-929	
Investment Gains and Losses			930-959	
Miscellaneous Revenue			960-999	
EXPENDITURES—FUNCTIONAL ACCOUNTS	0	— 3	— 000 —	00
Program Services			100-599	
Supporting Services:				
Management and General			600-699	
Fund-Raising			700-799	
Major Property and Equipment Acquisitions			800-899	
Payments to Affiliated Organizations			900-999	
EXPENDITURES — OBJECT ACCOUNTS	0	— 3	— 000 —	00
Salaries				01-07
Employee health and retirement benefits				08-13
Payroll taxes, etc.				14-19
Professional fees and contract service payments				20-24
Supplies				25-34
Telephone and telegraph				35-36
Postage and shipping				37-38
Occupancy				39-48
Outside printing, art work, etc.				49-52
Local transportation				53-56
Conferences, conventions, meetings and major trips				57-60
Subscriptions and reference publications				61-62
Specific assistance to individuals				63-70
Membership dues and support payments				71-74
Awards and grants				75-77
Equipment and other fixed assets				78-89
Depreciation				90-94
Miscellaneous				95-99
ASSETS	0	— 5	— 000 —	00
Cash			001-099	
Accounts and Pledges Receivable:				
Accounts Receivable			100-129	
Pledges Receivable			130-169	
Supplies for Sale or Use			200-299	
Prepaid Expenses and Deferred Charges			300-399	
Other Current Assets			400-499	
Investments			500-599	
Due to or from Other Funds			600-699	
Land, Buildings and Equipment			700-799	
Other Non-Current Assets			800-899	

Account Classifications	Suggested Code: Fund Group	Major Account Groups	Specific Account	Object Accounts
LIABILITIES	0	— 7	— 000 —	00
Accounts Payable			001-099	
Accrued Expenses			100-199	
Deferred Revenue:				
Contributions and Pledges			200-239	
Grants			240-279	
Other Deferred Revenue			280-299	
Other Current Liabilities			300-399	
Long-term Indebtedness			400-499	
Other Non-Current Liabilities			500-599	
FUND BALANCES				
Current General Fund:	1	— 9	— 000 —	00
Unappropriated Balance			001	
Appropriations and Reserves for Special Purposes			002-999	
Current Restricted Funds:	2	— 9	— 000 —	00
Gifts and Grants for				
Designated Purpose #1			001-099	
Designated Purpose #2			101-199	
etc.				
Land, Building and Equipment Unexpended Funds:	3	— 9	— 000 —	00
Construction Fund			001	
Renovation and Replacement Fund			002	
Bond Sinking Fund			003	
etc.				
Equity in Land, Building and Equipment	4	— 9	— 001 —	00
Endowment Funds:	6	— 9	— 000 —	00
Income Unrestricted			000	
Income Restricted:				
Designated Purpose #1			001-099	
Designated Purpose #2			101-199	
etc.				
Funds Functioning as Endowment:	8	— 9	— 000 —	00
Appropriations for				
Designated Purpose #1			001	
Designated Purpose #2			002	
etc.				
Custodian Funds:	9	— 9	— 000 —	00
Funds held for particular individuals and organizations			001-999	

Appendix B

SAMPLE MONTHLY REPORT FORM FOR AGENCIES SERVING BLIND AND VISUALLY HANDICAPPED PERSONS

I. CASE COUNT

	No. of Clients
Intake	
1. Clients referred to other agencies	_____
2. Clients unable to serve	_____
Active Cases	
3. Continued service from previous month	*_____
4. Newly accepted or reactivated clients	_____
5. Total active caseload (#3 plus #4)	_____
6. Cases discontinued	_____
7. Carry over to next month (#5 minus #6)	_____

II. BASIC CHARACTERISTICS OF NEWLY ACCEPTED OR REACTIVATED CLIENTS

8. Age and Sex

Age (years)	Total	Male	Female
Total	**_____	_____	_____
Under 5	_____	_____	_____
5–19	_____	_____	_____
20–44	_____	_____	_____
45–64	_____	_____	_____
65–74	_____	_____	_____
75–84	_____	_____	_____
85 and over	_____	_____	_____
Unknown	_____	_____	_____

9. Degree of Vision

	Total
	**_____
Absolute blindness	_____
Light perception	_____
Light projection	_____
Less than 5/200	_____
5/200 but less than 10/200	_____
10/200 but less than 20/200	_____
20/200	_____
Restricted field	_____
Unknown	_____

* This figure is the same as #7 on the previous month's report
** Total must equal #4

III. WORK LOAD	Home interviews	Office interviews	Total
10. Continued service from previous month (same as #3)			
11. Clients referred to other agencies			
12. Clients unable to serve			
13. Newly accepted or reactivated clients (same as #4)			
14. Total interviews (#10 through #13)			

IV. GROUP ACTIVITIES	No. of groups	No. attending

V. NATURE OF SERVICES RENDERED	Number ***
15. Exploration of problems and formulation of plans	
16. Interviews with relatives and interested individuals	
17. Referral to workshop	
18. Provision of general rehabilitation services	
19. Referral to State Office for the Blind	
20. Referral to medical facilities	
21. Assignment for skills teaching or friendly visiting	
22. Referral to recreational facilities	
23. Use of other community facilities	
24. Provision of visual aid services	
25. Other services	

VI. REASON FOR DISCONTINUANCE OF SERVICE	Number
26. Service satisfactorily concluded	
27. Service unsatisfactorily terminated	
28. Client moved away	
29. Client deceased	
30. Total (must equal #6)	

VII. LENGTH OF AGENCY SERVICE IN DISCONTINUED CASES	Number
31. Less than six months	
32. Six months but less than one year	
33. One year but less than two years	
34. Two years but less than three years	
35. Three years but less than five years	
36. Five years but less than ten years	
37. Ten years or more	
38. Total (must equal #6)	

*** The number for each service may represent a duplicate count